Mission: *Deliver clean, affordable, reliable energy and excellent customer service.*

Debt Service Coverage, Debt-Equity and Reserves

City Council Work Session # 1

March 7, 2012

Revenue Requirements - Cash Flow Return Method

- Annual minimum needs of the Utility - Normalized to exclude non-typical items

Cash Flow Methodology Revenue Requirement Components	Test Year ($ Millions)	Basis for Recovery
Total Operations & Maintenance Expense	$ 824	Continue to provide core services
Debt Service	168	Bond Covenant and Financial Policy Compliance
Capital From Current Revenue	111	Funding within Financial Policy guidelines
General Fund Transfer	105	Financial Policy Requirement
Other net (Non-Rate) Revenue	(94)	Transmission Revenue, Other Revenue
Total Revenue Requirements minus Reserves	$ 1,114	

- Reserves are added to cover non-typical events

Cash Flow Methodology Revenue Requirement Components	Test Year ($ Millions)	Basis for Recovery
Additional items:		
Contributions to Decommissioning Reserves	6	Financial Policy Requirement-Fund depleted
Required Contributions to Reserves	25	Financial Policy Requirement-Fund depleted
Total Revenue Requirement	$ 1,145	

Cash Flow Return Components

- **Based on Historical Test Year (PUCT filing requirements)**

Debt Service	• Compliance with Bond Coverage Requirements
Internally Generated Construction Funds	• Cash portion of annual Capital Improvement Program
General Fund Transfer	• Compliance with Financial Policies
Contributions to Reserves	• Coverage for non-typical items and emergencies
Decommissioning Reserves	• Mitigate future rate increases when power plants are closed

Financial Health Criteria

- Debt/Equity Ratio = Debt ÷ (Debt + Equity)
- Equity = Increased (decreased) by Net Revenue generated from Rates
- Debt Service Coverage (DSC) = Net Revenue ÷ Debt Principal & Interest
- Adequate Reserves = Reduce risk and provide flexibility & credit support

Moody's Report - November 2011

Debt / Equity Ratio:

Aa Rating

Debt should be in the range of 26-50%
Cash funding should be in the range of 50-74%

- **This means that Aa rated utilities use 50% to 74% cash to finance construction.**

- **At 50%, Austin Energy's cash to finance construction is at the low end of the Aa range.**

Fitch Peer Review Ratings Report – June 2011

Debt Service Coverage:

AA- Rating — **Median for AA- Rated Utilities 2.48**

Debt Service Coverage Ratio (DSC)	FY 2009 Actual	Test Year *With Reserves*	Test Year *Without Reserves*
Rate Revenue (Test Year at various levels)	$1,033,507,095	$1,145,071,163	$1,114,978,025
Other Revenue	132,427,698	85,966,153	85,966,153
Sub-Total	$1,165,934,794	$1,231,037,316	$1,200,944,178
Operations & Maintenance	$ 873,237,069	$ 824,736,318	$ 824,736,318
Balance Available for Revenue Debt Service	**$ 292,697,724**	**$ 406,300,999**	**$ 376,207,861**
Revenue Debt Service	$ 176,582,728	$ 167,713,457	$ 167,713,457
Debt Service Coverage (DSC)	**1.66**	**2.42**	**2.24**

Debt Service Coverage (DSC) Calculations

Financial Data	2009	(1) Bond O/S Method	(2) CAFR Method
Net Revenue	310,441	310,441	310,441
Prior Lien (PL) Revenue Bond			
11/15/2008	62,620	62,620	62,620
5/15/2009	23,593	23,593	23,593
Subordinate (Sub) Lien Revenue Bond			
11/15/2008	2,697	2,697	2,697
5/15/2009	3,810	3,810	3,810
Debt Service PL & Sub		92,720	
Net Revenue		310,441	
DSC on PL & Sub Bonds		3.35	
Separate Lien Revenue Bond			
11/15/2008	52,787	52,787	52,787
11/15/2008 Prepaid Interest	(897)	(897)	(897)
5/15/2009	26,539	26,539	26,539
Debt Service Separate Lien		78,430	
Net Revenue after PL & Sub Pmts		217,721	
DSC on Separate Lien Bonds		2.78	
Revenue Bond Debt Svc			171,150
Net Revenue			310,441
DSC per Audited Financial Statements			1.81

(1) Page v in Bond Official Statement
(2) Page 207 in 2009 CAFR

Net Revenues *divided by* Debt Service

Managing Cash

Checkbook

Working Capital
45 days of O&M less Fuel

Operating Cash

Savings
for Non-Typical Events

Repair and Replacement Reserve

Strategic Reserve:

Emergency

Contingency

Rate Stabilization

Decommissioning Reserve

Financial Policy Maximums

Savings
for Non-Typical Events

- Repair and Replacement Reserve
- Strategic Reserve:
  - *Emergency*
  - *Contingency*
  - *Rate Stabilization*
- Decommissioning Reserve

Maximum
for Non-Typical Events

- ½ of Depreciation Expense
- Strategic Reserve:
  - *60 days of O&M less Fuel*
  - *60 days of O&M less Fuel*
  - *90 days of Power Supply Cost*
- Power Plant Retirement Cost

Financial Policies for Reserves

Savings for Non-Typical Events	Current Savings for Non-Typical Events	Maximum for Non-Typical Events
Repair and Replacement Reserve	$ 0	$ 61 million
Strategic Reserve:	Strategic Reserve:	Strategic Reserve:
Emergency	$ 69 million	$ 69 million
Contingency	$ 69 million	$ 69 million
Rate Stabilization	$ 0	$ 98 million
Decommissioning Reserve	$ 0	$56 million

Reserves Provide Funding for Non-Typical Costs

Existing reserve balances are available for unplanned events such as:		
Replacement power for one nuclear unit	$	43,000,000
Fuel cost Increase 50%	$	45,000,000
Market spike in August 2011 during unplanned outage	$	30,000,000
2008 Financial Crisis-loss of access to capital markets due to high interest cost	$	29,000,000
2008 Financial Crisis-remedy bond ordinance provision due to loss of Surety	$	44,000,000
Water Curtailments		possible threat
Storm Damage from wind, ice, fire, etc.		possible threat
Insurance Claims		possible threat

Additional reserve balances are needed for major generation expansion such as:		
Addition of Selective Catalytic Reduction (SCR) Devices-FPP		probable addition
Base load Plant additions (Generation capacity needed in ERCOT)	$	225,000,000
Purchase Options for wind farms	$	200,000,000